



Life Solutions International Newsletter

Fall 2010

Simon Says

Two years have now passed since the financial crisis began in September of 2008 and while the market has experienced a significant decline in the supply of capital and product inventory, positive trends are beginning to emerge. Case flow in the individual policy market is still lower than pre-crisis levels but has been slowly and steadily increasing, particularly in the segment of the market below two million dollars in face value with shorter LE's. We expect this trend to continue into the foreseeable future as capital continues to slowly re-enter the market while there is renewed focus on this asset class by institutions.

Portfolio activity has increased significantly during the past six months as several large private equity firms have begun pursuing portfolios and a few high-profile seller auctions have generated publicity, including the portfolio of a large international bank with face value in excess of six billion dollars. Several of these portfolio transactions have already closed with more expected to do so before year end.

While most banks have exited the market, we are seeing other types of institutional investors entering and analyzing the market, including private equity funds, hedge funds, pensions and family offices. In addition, there have been some overseas fund formations, most of which have not yet gained traction in their fund raising and/or asset acquisition efforts. We expect to see more success in the fund raising efforts, particularly in cash flush regions like Asia, however, domicile, liquidity and tax treaty issues will have an impact on the pace and volume of funds that are formed and enter the market.

New retail funds have been formed in jurisdictions such as Ireland and Luxembourg, but have not yet had much success in their fund raising activities, as a result of prior problems in several UK funds and generally slow market conditions. It is our opinion that a quality retail product should allow an investor to participate in diversification of risk through ownership of large numbers of policies, not just one or two as is the case in many of the retail funds available to investors today (both here and abroad).

Another interesting and emerging structure geared toward owners of existing portfolios has come into play in the past few weeks. In this scenario, portfolio owners are contributing their assets into a new fund. The new fund will be the manager of the assets, and the new fund will generally have lines of credit in place to pay premiums on the assets until the pool turns cash flow positive. This allows existing owners the cash flow needed to ride through the tough times and not have policies lapse due to lack of liquidity.

The decline in capital supply and the resulting increase in yields required by investors, (on top of life expectancy elongation), depressed pricing offers on cases. This has created a very attractive yield potential for institutional investors as potential IRR's range from 12% to 20%+ in the direct settlement market and from 15% to 25%+ in the tertiary portfolio market. We are seeing some firming of prices in the portfolio market as a result of competition of capital pursuing these portfolios. Pools that continue to offer the highest potential yields come from distressed sellers of premium financed assets and beneficial interest pools.



Simon Says Continued

While portfolio structure, chain-of-title and insurable interest issues are a few of the concerns commonly associated with these assets, we are seeing investors willing to assume this added level of risk in many instances due to the increased IRR associated with this risk. While LSI is assisting buying institutions in the portfolio market, we are also assisting sellers who wish to sell all or part of their portfolios. In these endeavors, we are also seeing liquidity facilities becoming more available for sellers who would rather borrow to pay premiums than sell in a distressed sale situation. While most liquidity sources available for financing settlement pools tend to run at a financing cost in the double-digit range at the current time, we anticipate that these costs will come down later this year.

Although capital levels throughout 2010 have been reduced, overall 2010 has seen an increase in capital inflow compared to 2009 and we expect to see more capital flow into the market in 2011. This belief coincides with surveys of LP's where 88% plan to increase or at least match capital for new commitments in 2011 compared to 2010, with the largest portion of this capital still coming from North America. In addition, significant amounts of private equity dry powder (more than \$1 trillion) presently is sitting on the sidelines reviewing investment opportunities, and it is expected that a portion of this amount will be allocated to alternative asset classes, including life settlements.

The securitization arena has not seen a great deal of activity, however, we understand that Moody's is once again analyzing this asset class and expect that they will determine whether to issue ratings within the next 6 months. We also understand that AIG has made additional commitments to purchase policies out to 2014, and we expect they will soon do another A.M. Best-rated se-

curitization. This is obviously a very important statement about the profitability of the asset class, and we anticipate that other insurance companies will follow suit.

On an internal note, Life Solutions International, LLC ("LSI") affiliate Life Settlement Solutions, Inc. ("LSS") completed the fifth annual Life Settlement Awareness Month (LSAM)[®] in June. We feel a great sense of pride and accomplishment at delivering this valuable event for a fifth year. We are constantly fascinated to look back on the changes our industry has seen since we began the month-long educational event. This effort has prompted many other educational efforts in the industry including workshops, continuing education classes and other settlement education forums. We continue to believe that education is a key to the long term success and viability of this industry and will work toward that end.

As always, LSI and LSS continue to strengthen and broaden the life settlement portfolio transaction platforms. We based this commitment on the institutional demand for these services to be handled by an experienced, capable and licensed (LSS is currently licensed) firm such as ours.

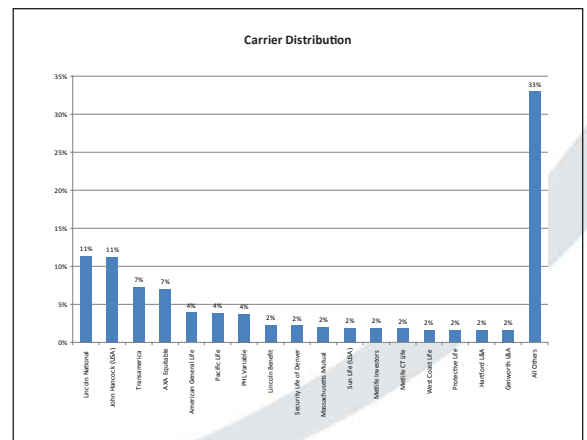
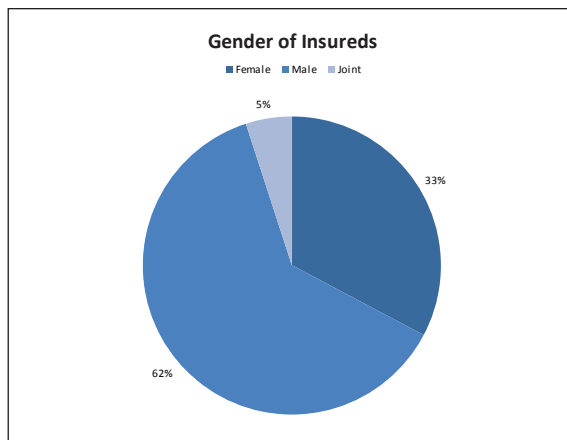
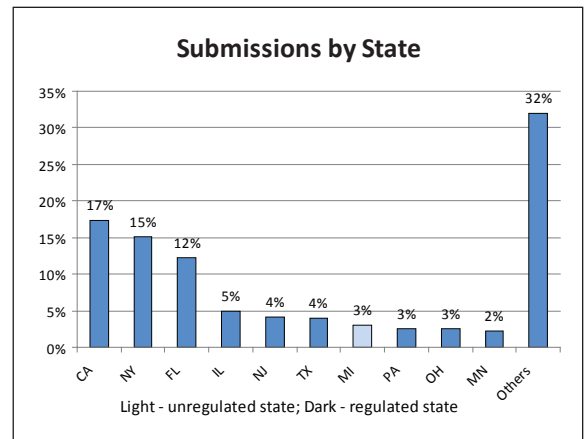
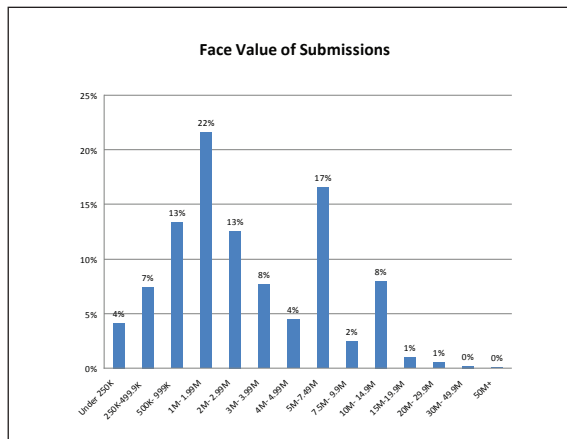
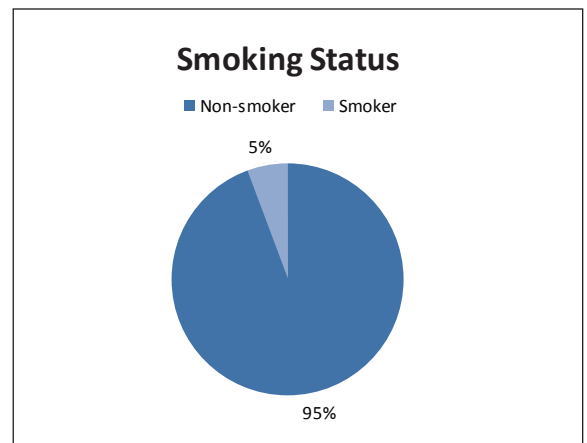
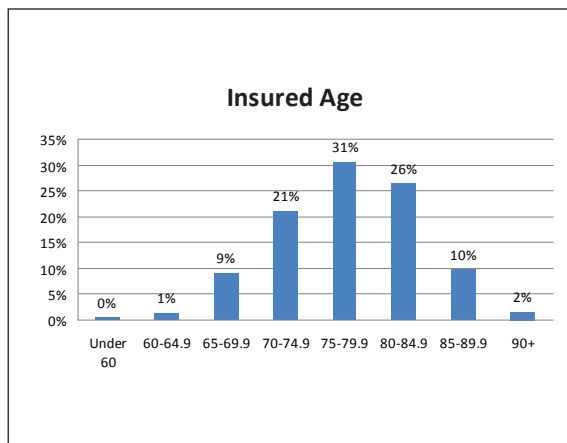
If you missed any of the LSAM events or just need access to quality resources on life settlements, please visit the website for all LSAM events at www.lifeselementawarenessmonth.com.

Please review the various sections in this edition, including important information on regulatory updates, current happenings at our firm and which events we'll be attending over the next few months. We wish you success and please feel free to contact us with questions, or for more information at info@lifefirms.com.



Industry Analytics

The following charts provide an overview of life settlement assets. For more detailed analytics, contact us at info@lifefirms.com.





Legal Briefs

NCOIL Seeks Comments on Consumer Disclosures

The National Conference of Insurance Legislators (NCOIL) recently announced two initiatives for model disclosures to be given to life insurance consumers.

Through NCOIL, Kentucky Representative Robert Damron is advocating model language to inform beneficiaries of their rights related to Retained Asset Account practices. Recent news reports have called into question a claims-paying practice that uses a Retained Asset Account when a death claim is made. Such an account allows a beneficiary to withdraw benefits over time rather than receiving payment of a death claim through a lump-sum payment. Criticisms have been voiced about the fact that some carriers retain the undisbursed portion of funds in the Retained Asset Account (and the earnings on its investments), while beneficiaries may not understand they have the right to a lump sum payment that

could be invested for his or her own benefit. Rep. Damron's proposed Beneficiaries' Bill of Rights would require written disclosures to beneficiaries regarding claims payment options, and would preclude insurers from setting up a Retained Asset Account without the beneficiary's informed written consent.

In a separate NCOIL proposal, Kentucky Representative Ron Crimm is advancing the concept of a Life Insurance Disclosure Model Act. This proposal would require insurers to give written notices to policy owners advising them of alternatives to the lapse or surrender of a policy. Alternatives covered by the proposed disclosure statement would include the option of a life settlement, transfer of the policy as a gift, replacement with alternate coverage, policy loans, cash surrender to the carrier, accelerated benefits, maintenance under the terms of policy riders, and conversion options.

New York: Department Reviewing Pending Applications

New York's new life settlements act went into effect in May, following which the Department reported that Life Settlement Solutions, Inc. ("LSS") and 32 other providers had met the requirements of the act to enable them to continue operating as life settlement providers in New York while applications are pending.

LISA is currently working with the NYSID to clarify the Department's expectations with respect to certain anti-fraud program requirements that have not been issues in other states. The New York act contains language

requiring settlement providers to make efforts to raise awareness as to the incidence and costs of fraud. This requirement is said to be similar to a requirement for New York property & casualty insurers, but apparently has no parallel for life insurance in New York, nor have other states included this type of requirement in life settlement laws. LISA also reports that some providers have received comments from the NYSID suggesting that anti-fraud plans were deficient in that persons having investigation responsibilities did not have legal training or experience in law enforcement investigations.



Legal Briefs Continued

Ohio Rulemaking Process Continues

In September 2010, the Ohio insurance department re-released a set of four proposed rules. Rule 3901-9-01 is to provide standards and fees related to: settlement provider applications for licensing; renewal of licenses for settlement providers; form filing requirements; financial security requirements; and standards for evaluation of reasonable payments in cases where the insured's life expectancy is less than 24 months. Corresponding provisions related to licensing, forms, etc., for settlement brokers are set forth in proposed Rule 3901-9-02. Proposed

Rule 3901-9-03 would establish the lengthiest and most detailed regulation in the country governing settlement broker continuing education requirements. The rule also includes extremely detailed provisions related to continuing education providers, course requirements and advertising of settlement education programs. The fourth proposal, Rule 3901-9-04, is intended to provide guidance regarding the questions to be included on policy applications to identify and prevent STOLI practices.

State Legislative Landscape

Following is a recap of settlement legislation as of October 1, 2010:

- *States that have adopted life settlement laws:* AK, AR, CA (eff. Jul-2010), CO, CT, FL, GA, ID, IA, IL (eff. Jul-2010), IN, KY, KS, LA, MD, ME, MN, MS, MT, NC, ND, NE, NH (eff. Jun-2010), NJ, NV, NY (eff. May-2010), OH, OK, OR (eff. Jan-2010), PA, RI (eff. Jul-2010), TN, TX, UT, VT (eff. Jan-2010), VA, WA, WI (eff. Nov-10) & W.VA
- *States that still regulate only viaticals:* DE, MA, MI, & NM
- *States that do not have any settlement life or viatical settlement laws in effect:* AL, AZ, D.C., HI, MO, SC, SD & WY
- *States with settlement-related bills currently in legislature:* MA, MI, NJ, NY, & PA

New legislation enacted in 2010 includes:

- *Kentucky NB 126 (eff. Jul-2010) – Mandates that the Executive Director promulgate notice to be given by life insurers to policy owners, for insureds age 60+ or known to have terminal/chronic condition, informing consumers of life settlements and other options available prior to lapse or surrender of a policy;*
- *Maine LD 1523 (eff. Jul-2010) – Clarifies STOLI definition as not to be interpreted to include lawful life settlement transactions;*
- *New Hampshire HB 660 – signed by the Governor and immediately in effect as of 06/14/2010; New life settlements act.*
- *Utah HB 39 (eff. May-2010) – Clarifies definitions related to life settlements;*
- *West Virginia SB 407 (eff. Apr-2010) – Amends W.Va. Administrative Code, making certain technical corrections and clarifies licensing procedures, form filing and annual reporting requirements for brokers and producers; and*
- *Wisconsin SB 513 (eff. Nov-2010) – New Life Settlements Act, based on NAIC model.*



Employee Spotlight



Ronald Dennis Lofgren, CPA, MBA, Vice President of Operations

Mr. Lofgren currently serves as vice president of operations for the Life Settlement Solutions, Inc., where he has been employed since April 2003. Mr. Lofgren's primary responsibilities include establishment and oversight of systems and procedures for efficient flow of business and paperwork through the system, financial evaluation of proposed settlement transactions and management and supervision of the contracts processing department.

Mr. Lofgren also works closely with representatives of the funding entities in connection with transfers of policy ownership to the trusts established by the funding entities for this purpose. Servicing of policies acquired through life settlement transactions, including tracking of insureds and claims processing, remains the responsibility of LSS under Mr. Lofgren's management and supervision.



Russell Scherrer, Pricing Analyst

Russell Scherrer currently serves as pricing analyst for life settlements and portfolio transactions. Mr. Scherrer is responsible for calculating and analyzing the present value of life settlements on both a single policy and portfolio basis. With the wide variety of portfolios flooding the market place, Mr. Scherrer and our pricing department need to be proficient in a variety of disciplines and quickly able to respond to market opportunities.

Portfolios require several more layers of due diligence than single case situations that are incorporated into the valuation process, as well as a more sophisticated software ensemble. The initial pricing and technical stages utilize a master spreadsheet containing policy and insured information, LE values and dates, and premium streams. Subsequently, we obtain in-force illustrations and current LE reports, along with verification of values and coverage through the carrier. Each stage of the portfolio process offers challenges from a technical standpoint. The unique structure of each portfolio requires flexibility and a willingness to adapt, qualities at which Mr. Scherrer excels.

Mr. Scherrer has worked for the company since LSS began operations 7 years ago. In that time he has served in several other roles, including staff accountant and case manager.



Industry News Wire

The Life Insurance Settlement Association (LISA) <http://www.thevoiceoftheindustry.com/> hosts a number of educational and legislative events each year. This year's not-to-be-missed events include:

15th Annual Fall Conference

November 10 - November 12, 2010

Miami, FL

For full detail on the events hosted by the Life Insurance Settlement Association, visit <http://thevoiceoftheindustry.com/content/61/Upcoming-Events.aspx>.

Many LISA events are open to both members and non-members, although members enjoy a substantial discount on registration fees. If you are not a LISA member, be sure to check out the many other valuable benefits of membership at <http://www.thevoiceoftheindustry.com/content/35/Become-a-Member.aspx>

Other organizations hosting events on the life settlement industry or events where members of the life settlement industry can be found include:

NAILBA 29

November 18 - November 20, 2010

Grapevine, TX

Where We Will Be

November 10, 2010 - November 12, 2010

LISA Convention, Miami, FL

December 5, 2010 - December 7, 2010

Opal Financial Group's Alternative Investing Summit, Dana Point, CA

Resources

For qualified participants that missed any of the Insurance-Linked Investments Awareness Month (ILIAM)® events or Life Settlement Awareness Month © earlier this year, most were recorded and available for download along with the corresponding slides. You can access these resources at:

<http://www.lifeselementawarenessmonth.com/resources.html>

<http://www.lifesolutionsint.com/>

In addition to the ILIAM resources, you will also find past issues of this newsletter, presentations, investor brochures and highlighters, and industry news articles.

Further, to keep up with LSI in real time, join our Facebook Fan Page, follow us on Twitter @lifestlmntaware or join our LinkedIn group.



About LSI

Life settlements offer a rare participation opportunity to qualified institutional purchasers in this alternative asset class. The industry offers very attractive returns on highly rated receivables in a non-correlated asset. Life settlements are one of the few non-correlated asset classes offering the potential for low volatility adding Alpha and enhancing Sharpe ratios. The industry has attracted the attention of many investment banks, hedge funds, private equity groups and pension plans. Joining with the optimal life settlement partner is essential for an institution to enter the life settlement marketplace and realize the highest potential yields, while minimizing risk.

Life Solutions International, LLC. ("LSI") and its affiliates develop and implement insurance-linked asset programs in the expanding US life settlement industry for participants worldwide. This alternative asset has the potential to offer above-market returns on receivables from highly rated issuers, portfolio diversification, alpha improvement and low volatility and has not been directly correlated to the equity and bond markets.

For more information, visit www.lifesolutionsint.com

Contact Us

Life Solutions International, LLC
9201 Spectrum Center Blvd.
Suite 105
San Diego, CA 92123
858.576.8067
info@lifesolutionsint.com
www.lifesolutionsint.com



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